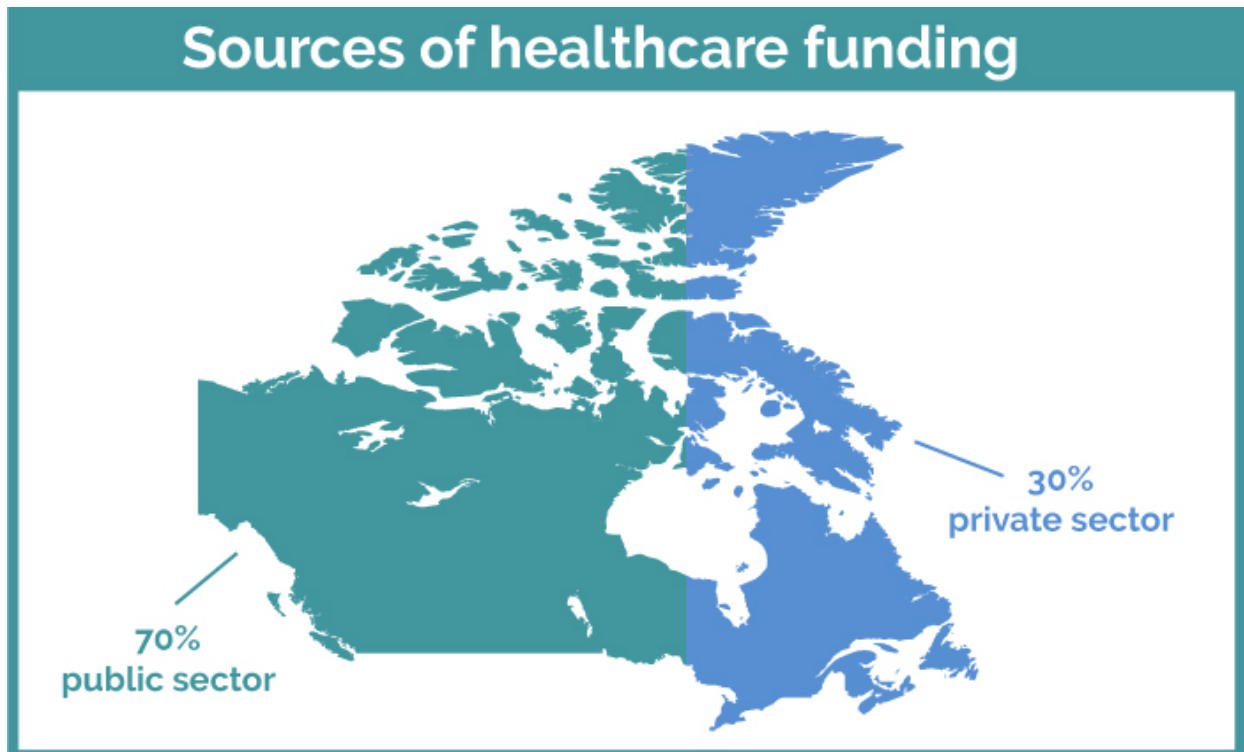


Budget Considerations for Canadian Healthcare Facilities

Budgeting for Canadian Hospitals

Hospital administrators walk a fine line during the hospital budgeting process. They have to create a **budget that provides support for hospital staff while also providing the level of care that patients need**. The budget also has to adhere to restrictions from the government and other sources of funding. On top of that, changing technology and increasing health-care costs, coupled with government budget restrictions, can make **budgeting for Canadian hospitals a big challenge**.

There is one bright light for hospital spending: Health ministers and taxpayers make sure that hospitals have one guaranteed form of funding. In 2013, about [70% of healthcare funding in Canada](#) stemmed from public sector sources while 30% came from the private sector. That year, [Canada's overall health spending was \\$211 billion](#).



Hospital administrators and facility managers (FMs) in Canada usually get **funding through global budgets**. The provincial or regional health authority allocates a certain amount of money to a hospital, and the hospital creates a budget based on the amount given.

In some provinces, notably Ontario, Quebec, and British Columbia, Health Ministers have announced **patient-focused funding**. This type of funding gives money to hospitals based on the number of patients seen and the number of specific procedures — such as cataract surgery, kidney dialysis, knee replacement and hip replacement — a hospital performs. Canadian Health Ministers made this funding change to reduce wait times and encourage hospitals to treat more patients.

Either way, how can facility managers and administrators at hospitals in Canada make budgets work for them?

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Hospital Budgeting Considerations

There are many elements in a hospital budget that administrators must closely consider:

1. Operating margins

Should margins be small — 20 days or less — or larger to allow for emergency expenditures? Large margins can mean money is not actively being used to improve patient care and services. Too-slim margins can mean a hospital struggles in the event of emergencies or a sudden influx of patient numbers. In some cases, you can **determine margins by looking at past budgets and expenditures**.

2. Patients

Global budgets give lump-sum payments, so theoretically a hospital would get the same amount of funding regardless of how many patients are treated. Even when hospitals are granted money through global budgets, however, the number of patients still affects costs, expenses and budget needs. **Predicting patient numbers by taking a look at the local population and past patient numbers** can help decide how many [hospital beds](#) and medical services the hospital might need in the upcoming months.

3. The business side of hospitals

Budgets need to consider money coming in, including fundraising and revenues, as well as the expenses per department, per service and per bed. Just as all businesses look closely at cash flow, hospitals, too, **have to consider money coming in and going out**.

4. The mission

Most hospitals have mission statements. A budget should **align well with this mission statement** and help the hospital meet its mandate.

5. History

This year's budget will likely not look like the budget from last year, but last year can be a good starting point. **Where did the budget save money last year?** Where did the budget fail? Look closely at the failures to avoid making the same mistakes again. If some medical equipment was not replaced for budgetary reasons, but the [older equipment caused an increase in malfunctions, misdiagnosis and other problems](#), that budget decision may have cost the hospital thousands of dollars in retesting and additional staff hours in addition to potentially causing a risk to patients. It's important to have that information in hand when designing this year's spending plan.

6. The costs of doing nothing

Hospital administrators will generally pay a lot of attention to big-ticket items, such as expanding a department or building a new operating room. **But the costs of not doing anything can also have a huge impact on the budget.** For example, deciding not to expand the number of staff — even though demand for services grows — can result in upset patients, reduced care, frustrated staff and increased expenses.

7. Technology

Hospitals are always investing in new medical equipment and technology, which can represent a significant expense on budgets. When creating a budget for medical supplies and equipment, it's important to consider total costs, including maintenance, installation, training and related costs. Equipment, however, is an **opportunity to potentially save money**. Hospitals can choose to buy new equipment, but in many cases can save money by [leasing medical equipment](#) or [buying remanufactured](#) or [used equipment](#).

8. Revenue-producing departments

Although hospitals are not-for-profit entities in Canada, **some departments are revenue-producing since not all services in a hospital are covered by provincial health plans.** Optional surgeries and treatments, such as cosmetic procedures performed in a health centre, are revenue-producing. Many hospitals also take part in fundraising activities or use gift shops and other on-site services to generate some revenue. Hospitals might also get revenues from uninsured patients not covered by any health plan. Budgets must consider these forms of cash flow.

9. Physician salaries and supports

 \$31.4 billion =  physician compensation

In 2013, compensation for physicians was expected to [reach \\$31.4 billion](#), becoming one of the fastest-growing segments of healthcare spending. As physicians are added to a hospital, and as the hospital works to attract specialists and retain medical professionals, physician reimbursement will likely continue to represent one of the largest segments of most hospital budgets. Pensions, benefits and salaries of hospital staff can represent one of the largest items of spending on any hospital budget.

10. **Changes**

Major overhauls, such as changing a hospital's mission or trying to add a new wing, can unbalance a budget. You **might need to add a separate part of the budget** if your hospital is transitioning to a children's hospital, teaching hospital or adding a department.

11. **Inflation**

Health care costs are always going up, as health care professionals and politicians often point out. When looking at fixed costs especially, it's **important to keep rising expenses in mind** to ensure a spending plan reflects current prices.

12. **Services**

Hospitals might need to cut services or options to meet budget targets. In these situations, it's useful to ask "Is this needed?" Rather than trimming 20% from all or two departments, for example, hospital administrators might **ask whether taking out a service entirely might be a better solution**.

13. **Outside sources of support**

Hospitals in Canada can sometimes refer patients to clinics or other sources of health care, reducing the need for in-hospital services. Many hospitals also partner with non-profit organizations, government programs and communities to improve overall health in a community. In some cases, these **programs are aimed at improving patient outcomes and the number of patient hospital admissions**, which in turn can affect hospital expenses. For example, a hospital may take part in a stop-smoking program in the community. This can mean an immediate expense but over time can reduce the number of patients admitted due to smoking-related conditions. Outside participation needs to be considered in any budget, as it can add to costs today but potentially reduce costs in the future.

How to Present the Budget



It is important to present the budget in a way that encourages communication.

Once you write the budget, the harder work begins: presenting the budget and getting everyone in the **hospital community to support and follow the spending plan**.

A budget is an active document, and it's a very important one. Funding can be based on budgets — provincial and regional health authorities will look at past budgets of a hospital when determining funding levels. In fact, health authorities do not consider demand or patient numbers when making funding decisions, in most cases, so this year's budget can have a big impact on funding in a few years' time.

Presenting hospital budgeting plans is also important for departmental reasons. Departments may feel they deserve more of the budget than they're given. Heads of departments can also be put in a difficult position by budgetary changes. If a surgical department is told their budget has decreased by 10%, the head of that department might have to make some difficult decisions about where that money will be taken from — whether a reduction in compensation or staffing, or a cut in medical supplies and equipment. Open communication and support can help departments make any needed transition.

In fact, presenting the budget in a way that encourages communication is important. When speaking about the budget, it's important to **stress the financial goals and successes of specific departments**. Quantifying how a budget will help a department meet its efforts can go a long way towards resolving any differences of opinion about the budget itself. If the hospital community recognizes that budget changes or a current budget will help them do their job or will help produce good results, they might be more accepting of the plan. Plan for this conversation and have the numbers to back up the budget. Be prepared to listen to concerns, too, and find solutions when possible.

A good spending plan should use the language that departments, managers and hospital administrators need to see. This might mean including a section in the budget to show how the spending plan will help patients, reduce costs or both. It may mean adding a section about other hospitals and their successes, with an explanation of how the current budget will help the hospital achieve similar good results.

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Sticking to the Hospital's Budget

Hospital budget planning is one thing, but all administrators know that the real test comes after the budget is approved. Even the best budget is not very helpful if a hospital routinely goes over costs. There are a few ways to improve the chances that a budget will not only get approved, but also followed:

- **Practice the best hospital budgeting systems possible.** Good budgeting for hospitals means treating the budget as a workable plan. The plan should recognize the concerns and needs of hospital staff and specialists as well as patients.
- **Stick to a holistic approach.** Rather than creating separate budgets for each department, it can be useful to consider overall costs first and then consider costs by department. This can make it easier to see how the hospital is spending money overall. It can also help have a "bottom line" to refer to when additional requests for funding are made.
- **Look beyond the budget.** Just as administrators can take a holistic treatment approach, it can be useful for them to treat the hospital budgeting process and their position overall holistically. Successful hospital CFOs and administrators are often a success precisely because they look past the boundaries of their job. In addition to budgeting for hospitals, they might take the time to get to know hospital staff, speak to patients and take part in recruiting or fundraising drives. Understanding more about the hospital community overall helps the administration understand current financial needs. Administrators who really understand their hospital have insight into what changes need to be made to the budget.
- **Approach most expenses as fixed costs.** Even variable costs can be essentially treated as fixed costs by setting a cap on spending or determining how much is spent on a variable expense, on average. This makes it easier to plan long term and stay within the budget.
- **Quantify the results.** It's almost impossible to tell how well a hospital is doing financially without frequent checks. What is the success rate for patients? How much is spent per hospital bed? Per patient? Per day? What departments are generating the most results or yielding the best fundraising traction? How many departments stick to their budget? Why are some departments unable to follow their spending plan? Looking closely and asking lots of questions is as much a part of the job as creating a glossy printed budget. Maybe asking questions is even more important than crunching the numbers. Questions can help pinpoint problems with the current budget, which can affect conversations with regional or provincial healthcare authorities as well as future budgets.

- **Reduce theft, loss and other budget-killers.** Loss and theft of medical equipment can result in [losses of \\$4,000 per bed each year](#), on average. An asset-tracking system can reduce loss and theft while helping hospital staff locate equipment quickly. Reducing losses and inefficiencies means administrators have more money to put towards important expenses.



Emergencies and Hospital Budget Contingency Planning

Hospitals deal with life-threatening emergencies every day, but it's also important for the **hospital budgeting process to account for emergencies**. Emergencies for a hospital can include:

- A sudden economic downturn that affects fundraising efforts
- Litigation
- A major local disaster that strains hospital resources
- An outbreak or epidemic (the SARS crisis is one example)
- Unexpected facility or equipment repairs

Adequate margins can help hospitals deal with some of these emergency situations. Having alternative forms of funding that can be accessed in an emergency is also important. **Canadian federal and provincial governments** are typically quick to respond in cases of ice storms, but hospitals usually need a reserve to operate until grants and support services arrive.

Even though **hospitals in Canada are considered not-for-profit organizations** and receive most of their funding from the government, that does not mean they shouldn't be profitable. The reality is that patients today demand high-quality health care, and most hospitals agree they absolutely deserve the best quality of services. Hospitals are still businesses and need to have budgets in place to deliver the health services needed for their communities.

Administrators involved in hospital budget planning have many ways to reduce costs. One of those choices is to make different decisions when buying hospital equipment. Meditek is a Canadian company at the forefront of advanced hospital equipment services. We provide an array of [medical equipment](#), [onsite support](#), [consultations](#), [installation](#), [leasing and related services](#). Shop for medical equipment or [contact Meditek](#) today for help meeting equipment budget requirements.